



RIPEC

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Representative Marvin L. Abney
Chairperson, House Committee on Finance
Room 35
Rhode Island State House
Providence, RI 02903

February 10, 2022

RE: Testimony on House Bill 7123 – Article 8

Dear Chairperson Abney,

I am writing on behalf of the Rhode Island Public Expenditure Council (RIPEC) in support of the section of Article 8 in the Appropriations Act, House Bill 7123, that would enable local governments in Rhode Island to adopt a tangible property tax exemption. Tangible tax exemptions have minimal impact on municipal revenues as most tangible tax collections come from a small number of larger taxpayers, and tangible property taxes comprise a relatively small portion of the overall property tax levy across the state (8.1 percent in FY 2022). While the effect of this tax on revenue collection is small, it has a substantial negative impact on Rhode Island's small businesses; tangible tax is levied at rates often far higher than the rates applied to real property, and it carries significant administrative burdens for both businesses and local tax assessors.

As depicted in the figure to the right, nine Rhode Island's cities and towns already apply exemptions to some portion of the assessed value of tangible tax, though only four have received explicit approval from the General Assembly to do so.¹ Tangible tax exemptions range from \$2,500 in East Greenwich to \$35,000 in Narragansett. While five municipalities apply exemptions to all tangible accounts, four apply the exemption only to those accounts with assessed

Tangible Tax Exemptions, FY 2022

	Amount Exempt	Applicable To All Accounts
Bristol	\$ 10,000	
Charlestown	\$ 10,000	✓
Cranston	\$ 5,000	
East Greenwich	\$ 2,500	✓
East Providence	\$ 5,000	✓
Middletown	\$ 15,000	✓
Narragansett	\$ 35,000	✓
Providence	\$ 10,000	
West Greenwich	\$ 3,000	

¹ Narragansett and East Greenwich have the authority under R.I. Gen. Laws [§ 44-3-65](#) to exempt up to \$35,000 of assessed tangible property value, and under R.I. Gen. Laws [§ 44-3-3](#) Bristol and Charlestown have the authority to implement tangible property exemptions of any value.

property value below the threshold, thereby creating a fiscal cliff that is inequitable and that may discourage investment.

Tangible property is often taxed at a particularly high rate. Twenty-three cities and towns tax tangible property at a higher rate than residential property, and 19 tax tangible property at a higher rate than commercial real estate. The highest tangible rate in the state (\$64.78 in North Providence) is more than twice as high as the state's highest residential rate (\$24.56 in Providence) and substantially higher than the state's highest commercial rate (\$42.33 in Central Falls). In 12 municipalities, the tangible tax rate is at least double the tax rate of residential property, and in two municipalities (Smithfield and Pawtucket), it is more than triple the residential rate.²

Tangible tax exemptions help to relieve small businesses of relatively high tax rates, and they may be applied with very minimal impact to municipal property tax collections overall. For instance, as Cranston's \$5,000 exemption went into effect in 2015, the city's assessor estimated that 790 taxpayers would be made exempt, but the city would sacrifice only \$69,000 in revenues, just 0.6 percent of Cranston's total tangible levy and 0.04 percent of the city's total property tax levy that year.³ Conversely, to a small business this tax relief is significant and can translate into investment in additional staff, healthcare coverage, and staying afloat. Across the state, most tangible property taxpayers contribute a small amount to the tangible levy, while a few large payers account for most of the levy. Utility companies, which own significant public infrastructure, are the state's biggest tangible tax accounts by far. RIPEC's analysis found that, in the five municipalities with the greatest tangible property tax levies in Rhode Island (together, these municipalities were responsible for 85.0 percent of the state's total tangible property tax levy), the tax bills of one company—National Grid—alone comprised over a third (37.3 percent) of the total combined tangible levy for FY 2021.⁴

The work of independent researchers also supports the logic of assessed value tangible exemptions. Researchers have noted that, because tangible taxes are self-administered, and because there are multiple complexities in tangible property tax systems, the tax carries with it a high administrative burden for businesses and municipal tax administrators. For some businesses, in fact, the cost of compliance outweighs the cost of the tax itself.⁵ Also, as some scholars note, the cost of compliance is largest for new businesses, which tend to have newer equipment and must report on their tangible assets without having previously done so.⁶ Some scholarship additionally suggests that tangible property taxes may discourage capital investment.⁷

² R.I. Division of Municipal Finance, [Tax Rates](#); RIPEC calculations.

³ Gregory Smith, "[Cranston approves exemption on tangible taxes for small businesses](#)," *Providence Journal*, January 6, 2015; R.I. Division of Municipal Finance, [Assessed Values & Levies](#); RIPEC calculations.

⁴ These municipalities are Providence, Warwick, East Providence, Johnston, and Cranston. Figure arrived at using municipal tax rolls and R.I. Division of Municipal Finance, [Statewide Tax Levies](#).

⁵ Lawrence C. Waters, "[The Business Personal Property Tax in Connecticut](#)," Romney Institute of Public Management at Brigham Young University, November 6, 2015.

⁶ Joyce Errecart, Ed Gerrish, and Scott Drenkard, "[States Moving Away from Taxes on Tangible Personal Property](#)," Background Paper No. 63, (Washington, DC: Tax Foundation, 2012).

⁷ Garrett Watson, "[States Should Continue to Reform Taxes on Tangible Personal Property](#)," Tax Foundation, Fiscal Fact No. 668 (August 2019).

Given the evidence provided here, RIPEC respectfully urges the Committee to support legislation enabling local governments to adopt a tangible property tax exemption. Rhode Island state law lacks consistency regarding tangible exemptions, but nine municipalities already have such exemptions in place, and such policies are effective in their objective of benefiting the activities of small businesses without hindering a local government's ability to collect sufficient revenue.

I moreover urge the Committee and the Assembly to go further to relieve small businesses across the state of the fiscal burden of tangible tax, and to relieve both small businesses and local tax assessors of its considerable administrative burden. Legislation that would require (not just enable) a de minimis exemption on the assessed value of tangible property to all taxpayers would provide relief to small businesses across the state, thereby promoting economic development, while having a small impact on tax collections. Rhode Island's business tax climate was recently ranked 40th by the Tax Foundation.⁸ As our state continues to recover from the effects of the pandemic, tangible tax reform will assist in improving our economy and signal to businesses inside and outside of Rhode Island that we are committed to improving our business climate.

Additionally, I urge the Committee and the Assembly to consider phasing out the tangible property tax altogether, perhaps by pairing increased exemptions with lower rate caps over time, in similarity to the motor vehicle tax phaseout. The state's total tangible levy comprises a relatively small portion of the property tax levy and some foregone municipal revenues could be recouped through reform of the state's public service corporation tax on the tangible personal property of utility companies.⁹

Sincerely,



Michael DiBiase
President & CEO
Rhode Island Public Expenditure Council

⁸ Rhode Island Public Expenditure Council, "[RIPEC Analyzes Rhode Island's Drop from 38th to 40th in Business Tax Climate Index State Rankings](#)," January 2022.

⁹ The public service corporation tax is a state-run tax on "the lines, cables, conduits, ducts, pipes, machines and machinery, equipment, motor vehicles and other tangible personal property within the state of telegraph, cable, telecommunications corporations and express corporations." The public service corporation tax rate is annually determined by the Department of Revenue and the calculation is based on the state's average assessment ratio and average property tax rate. To avoid double taxation, these forms of tangible property are exempt at the municipal level. The state collects the funds on behalf of the municipalities and distributes all revenue collected to the municipalities, minus 0.75 percent for administrative expenses, based on population. The FY 2022 Budget as Enacted anticipates the state will collect \$12.6 million from the Public Service Corporation tax, down from an anticipated \$13.2 million in FY 2021. R.I. Gen. Laws, [§44-13-13](#); R.I. House Fiscal Advisory Staff, [FY 2022 Budget as Enacted, Section VI: Special Reports](#).

RIPEC is a nonpartisan and nonprofit public policy research organization dedicated to providing objective research and analysis that addresses the critical challenges surrounding public finance and economic opportunity in Rhode Island.